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C O N F I D E N T I A L SECTION 01 OF 04 ROME 001342

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STATE FOR INR/EAP

STATE FOR INR/NEA

E.O. 12958: DECL: 12/04/2019

TAGS: ECON ENRG EPET ETTC IR PREL

SUBJECT: ITALY IRAN SANCTIONS ACT DEMARCHE: GOI INFORMED;
ENI DECEPTIVE; EDISON COOPERATIVE

REF: A. A) SECSTATE 121808

1B. B) ROME 1110

1C. C) 11/9/09 DHENGEL - DTHORNE "IRAN/EDISON" EMAIL

1D. D) 8/31/09 WMEA - DHENGEL "ITALY IRAN EDISON:
WAS THERE MORAL SUASION?" EMAIL

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Classified By: Classified By: DCM Elizabeth Dibble
for reasons 1.4 (b) and (d)

11. (C) Summary: Post delivered the Iran Sanctions Act (ISA) demarche to the GOI, and to Eni and Edison energy companies. As expected, GOI officials defended their "moral suasion" actions and claimed their companies are cooperating. Eni officials continue to claim that they have halted any new activities in Iran, but in fact they continue to expand. Eni seemed very concerned about possible enforcement of the ISA. Edison is being more cooperative than Eni and has agreed to put off any exploration work in Iran until 2011. Eni's position as the largest foreign operator in Iran, and its partial ownership by the GOI, could make the company a useful tool for putting additional economic pressure on Iran, but Washington should determine what we want the company to do (or not to do) so that Embassy can follow-up constructively with both Eni and the GOI. End Summary.

GOI REACTION

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12. (C) On November 30 Econoffs delivered Ref A points about the Iran Sanctions Act (ISA) to Claudio Spinedi, the MFA's Deputy Director General for Economic and Financial Cooperation. Spinedi claimed that due to GOI "moral suasion" Eni agreed to address USG concerns over the company's Iran operations and the company has pledged not to undertake any new activities there. Asked what Eni means by "no new

activities" in Iran, Spinedi said that Eni will not perform new drilling activities. Econoffs pointed out that while Eni claims it will not undertake "new" activities in Iran, the company tells us it will continue to expand oil production under what Eni defines as "old" activities (something we later confirmed with Eni reps).

¶13. (C) Spinedi told us that Edison has agreed to halt exploration activities in Iran's Dayyer block until 2011 following a pledge made by Edison's CEO Quadrino during his recent Washington DoS meeting (Ref C). On IRASCO, Spinedi claimed that it is not an Italian company; we pointed out that the company is based in Italy and operates out of Italy.

Econoffs also pointed out U.S. concerns about activities that are aimed at allowing Iran to expand production -- Eni's and Edison's operations are clearly in this category.

¶14. (C) Responding to Spinedi's point on GOI's "moral suasion" efforts, Econoffs pointed out that we have been told by Edison that the GOI has encouraged Italian energy companies to "keep one foot in Iran" in order to be prepared to move should the international political climate change. Spinedi seemed aware of this advice, and responded that the GOI has not been using that line in "recent" discussions with Italian companies. The MFA's Iran Desk Officer similarly told Poloff during a separate December 1 meeting that the GOI had used "strong moral suasion" with Italian companies, and stressed that the MFA's message has been clear that "now is not the time for any new activities" in Iran. The Iran Desk pointed out GOI estimates that new Iran sanctions will cost Italy 1 billion Dollars. Poloff refuted that assertion; we have been pointing out to the GOI that while Iran depends on Italy for some imports, Iran is not economically important to Italy;

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Iran accounts for a tiny fraction of Italian exports, and supplies only about 5 percent of Italy's energy needs.

¶15. (C) On ISA, Spinedi briefly tried to invoke the so-called "gentlemen's agreement" reportedly reached by the Clinton Administration with the EU not to enforce the law, but he quickly dropped this argument.

ITALIAN COMPANIES' IRAN ACTIVITIES

¶16. (C) Eni explained its Iran activities to the Department in an October 2009 document, and in the November 16 CEO Scaroni letter to Ambassador Thorne, both transmitted previously to EEB. According to these documents, Eni's Iran activities involve four projects it entered from 1999 to 2001 under "buy-back" contracts: South Pars 4 - 5 (Eni 60 percent - operator); Darquain (Eni 60 percent - operator); Dorood (Eni 45 percent - Total as operator); Balal (Eni 45 percent - Total as operator). In addition, Eni's engineering subsidiaries have completed various contracts for Iranian energy infrastructure projects whose total value Eni estimates at around 50 million euros.

¶17. (C) According to Edison, its only contract in Iran is a January 2008 Dayyer off-shore block exploration deal. Edison estimates the total investment for this contract to be around 30 million euros. Edison earlier told Post that the company has done so far some exploration activity, including seismic tests, worth between 6 and 9 million euros. Edison added that the company is very interested in the Dayyer block because of the likely presence of large hydrocarbon deposits potentially worth billions of Dollars (Ref B and D).

ENI, NO NEW IRAN DEALS, BUT WILL EXPAND OPERATIONS UNDER EXISTING CONTRACTS

¶18. (C) Econoffs also delivered Ref A demarche on December 1 to Eni's Diplomatic Advisor Vincenzo de Luca and Public Affairs Director Leonardo Bellodi. De Luca repeated Eni's

position that the company is only trying to recover its investments in Iran undertaken under previous contracts. He said that Eni's CEO Scaroni had pledged, both in his September Washington meetings and on a November 16 letter to Ambassador Thorne (Post sent a copy to the Department), that Eni will not to undertake new activities in Iran. Bellodi called for the USG to take a "balanced approach" to Eni's Iran activities in order to address mutual concerns, and added that once Eni recovers its investments there (Eni estimates around 2013) that the company will leave. Bellodi pointed that Eni has been cooperative in informally explaining to the USG its Iran activities, noting that EU laws actually bar the company from responding to official requests for this type of information.

¶9. (C) Econoffs highlighted the broader USG concerns that investments in Iran's energy sector lessens international pressure on that regime. Econoffs pointed out that in its current review the U.S. is not targeting Eni specifically but is focusing on all foreign companies that have significant energy investments in Iran that may trigger an investigation under ISA. Econoffs also inquired into the contradictions in CEO Scaroni's letter to the Ambassador: in the letter Eni commits not to pursue new activities in Iran, while at the same time stating that the company will continue to expand operations there, and will continue to "negotiate" with the Iranians.

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¶10. (C) De Luca responded that CEO Scaroni pledges not to undertake additional deals for new activities in Iran, including not signing an MOU for development of Phase III of Darquain nor new contracts by Eni's subsidiary companies (except for one that has already been signed). De Luca qualified, however, that Eni does not consider as "new" activity any oil exploration and development that falls under its existing Iran contracts. Consequently, De Luca said ENI will continue its activities in the Darquain block in order to finalize the "realization" phase of this contract by the Summer of 2010. De Luca agreed with Econoffs assessment that this will lead to a significant increase in oil production from Darquain (Note: Eni's 2008 Fact Book states that its objective is to increase Darquain production from current 100,000 bpd to 160,000). Queried further, De Luca also added that Eni will continue to negotiate with Iran for the possibility of additional expansion of Darquain production in order to recover \$1.4 billion that Eni claims as extra costs. De Luca said the Darquain contract allows for the recovery of such costs overruns.

¶11. (C) The Eni reps grew visibly agitated when we told them of our ISA demarche. At first they rather defiantly claimed to have the protection of EU law, but they quickly abandoned this line and noted that their presence in the United States is far more important to them than their Iranian operations. We reminded them of the many Americans who are unhappy with Eni's collaboration with Iran, and described recent Congressional action. As did Spinedi, the Eni reps briefly tried to invoke the "gentlemen's agreement" with the EU not to enforce ILSA, but, like Spinedi, they quickly seemed to grasp that this deal might no longer be in force.

EDISON TO HOLD OFF EXPLORATION ACTIVITY UNTIL 2011

¶12. (C) The Consul General in Milan delivered Ref A points on December 1 to Edison's CEO Umberto Quadrino. Quadrino responded that he had already made a commitment to Ambassador Morningstar and EEB DAS Hengel during a November 9 Washington meeting to postpone exploration in the Dayyer oil block until ¶2011. He estimated that such exploration would have required an investment of "around" 20 million Dollars. Quadrino stressed, however, that Edison would have to fulfill the terms of its Dayyer exploration contract and conduct drilling at some point after that. He said that otherwise Edison will

risk breaching its contract and a forced departure from Iran, giving up its foothold there should future conditions for foreign investment improve. Quadrino added that Edison has no plans for new larger investments in Dayyer unless the political conditions for investing in Iran improve. He stressed that his company has been responsive to USG concerns over Iran, claiming that Edison walked away from a large South Pars deal in 2007 (we think he is exaggerating on this point) and now is postponing exploration activity in Dayyer until 2011. He suggested some type of *qui pro quo* in the form of greater USG support for the company's Turkey-Greece-Italy gas project (TGI) and viewed by Edison as neglected by the U.S. in favor of Nabucco) designed to bring gas from the "Southern Corridor" Caspian region.

IRASCO

¶13. (C) According to the U.S. Department of Justice Attach' Office (DOJ) at Post, IRASCO is part of an on-going U.S. criminal investigation of illegal exports to Iran by American

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companies. While IRASCO is not itself under investigation, Post's DOJ Attach Office believes its cooperation is essential due to its involvement with the U.S. companies being investigated. DOJ's Attach' Office said that demarching IRASCO now on the ISA review may jeopardize its cooperation, and requested we hold off contacting it until after DOJ takes sworn testimony from company officials (scheduled for the end of January or early February 2010). The DOJ Attach' Office recommended that U.S. prosecutors of this case discuss with the Department an appropriate approach. Post requests Department guidance on whether to hold off informing IRASCO of the ongoing ISA review as requested by DOJ's Attach' Office.

COMMENT

¶14. (C) Eni continues to be deceptive and misleading about its activities in Iran. The company continues to profess that it is doing nothing new in Iran, when in fact it is expanding production in the Darquain field, and plans to continue with this expansion. Given Eni's track record, Washington should not accept at face value any claims by Eni that it has halted its expansion of Iran's energy production capabilities.

¶15. (C) Eni brags about being the largest foreign operator in Iran. We believe that this, along with the fact that the company is one third owned by the GOI, could make Eni an especially useful tool through which to increase economic pressure on Iran. But Washington should consider specifically what we would like so see Eni do in Iran. Do we want to halt its operations in Iran? Do we want the company to halt the expansion of infrastructure and output from the Darquain field? It is probably in our interest for Eni to continue to siphon off some of the revenues under the buy-back scheme (revenue that would otherwise go to the Iranians). The Ambassador will see Eni CEO Scaroni again on December 10 so we will have another opportunity to pass a high-level message.

¶16. (C) Edison also uses some spin when talking to us -- Quadrino's claim to have made a noble sacrifice on South Pars is an exaggeration (he earlier told CG Milan that this deal had never moved beyond the conversation phase) -- but we find Edison and Quadrino to be far more straightforward and honest than Eni. At least we have a clear picture of what Quadrino has agreed to do: stop exploration in Dayyer until 2011. While Quadrino seems to think that he now "deserves" more U.S. support on TGI because he has "cooperated" on Iran, we don't think we owe him anything -- he proceeded on the Iran exploration project over our objections.

THORNE